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Central Intelligence Agency

Washington, D.C. 20505

MEMORANDUM FOR: Mr. William M. George
Director, International Economics
Defense Technology Security Administration

SUBJECT : NATO Country Economic Summaries [redacted] 25X1

Attached are the NATO Country Economic Summaries that you requested in your memorandum of 16 October. We hope Secretary Weinberger finds useful our contribution to the briefing material you are pulling together for his attendance at the December NATO ministrial meeting. If you have any further questions or if we can be of further assistance, please call [redacted] Deputy Chief, West European Division, on [redacted] 25X1

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[redacted] 25X1

Director
European Analysis

Attachment:
As stated.

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[redacted] 25X1

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BELGIUM-LUXEMBOURG: GENERAL ECONOMIC DATA

BELGIUM

Population (1984): 9.9 Million GDP (Purchaser's Value)/Capita: $7,890

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	68.3	72.5	78.1	83.0
GDP (Constant Prices - % Change by Year)	0.7	0.4	2.2	1.5
Cost-of-Living Index (1980 = 100)	117	126	134	140

LUXEMBOURG

Population (1984): 0.37 Million GDP (Purchaser's Value)/Capita: $13,240

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	4.0	4.2	4.9	5.1
GDP (Constant Prices - % Change by Year)	2.1	-0.5	0.1	0.5
Cost-of-Living Index (1980 = 100)	118	128	136	141

The Belgian economy maintained its steady but unspectacular recovery in 1985, restrained by continued government austerity measures and structural weaknesses. Despite a 6-percent rise in investment spending, real GDP will be up only about 1.5 percent this year--not enough to cause a significant fall in the 13.4 percent unemployment rate. Economic growth should pick up slightly in 1986, to about 2.0 percent. On a more positive note, inflation has slowed to about 5 percent this year and probably will improve somewhat further in 1986. 25X1

The principal objective of Prime Minister Martens's fiscal policy has been to reduce the budget deficit from 13 percent of GNP in 1983 to 7.8 percent in 1986. His re-elected government's first task will be to formulate a 1986 budget, and Brussels will need to make spending cuts of at least $560 million to meet its goal. Further deficit reduction will be difficult, however, given trade union hostility to social spending reductions and the government's commitment to a series of tax cuts beginning in 1986. 25X1

Belgian exports, which constitute about 70 percent of GNP, will grow by about 3.5 percent in 1985 while slow economic growth will hold down import growth. As a result, Belgium's current account, in deficit since 1977, will approach balance in 1985, and could even register a surplus. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis) (Belgium-Luxembourg)	1982	1983	1984	1985*
Exports of Goods and Services	82.9	75.5	76.8	79.5
Imports of Goods and Services	84.4	75.2	77.0	78.6
Balance of Goods and Services	-1.5	0.3	-0.2	0.9
Current Account Balance	-2.7	-0.8	-0.6	0.1
Long-Term Capital	-3.7	-5.1	-5.5	-5.3
Total Reserves Minus Gold (yearend)	3.9	4.7	4.6	4.7**

*Projected
**September

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[redacted]

CANADA: GENERAL ECONOMIC DATA

Population (1984): 25.2 Million GDP (Purchaser's Value)/Capita: $13,360

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	286.7	310.8	336.7	363.6
GDP (Constant Prices - % Change by Year)	-4.5	3.2	4.7	4.0
Cost-of-Living Index (1980 = 100)	125	132	138	144

[redacted] Prime Minister Mulroney's Conservative government is currently preoccupied with reversing its decline in the polls--from a 47-percent approval rating in June to 40-percent in October--and resolving a potential crisis in the country's banking industry. Since Parliament reconvened in September, the government has been shaken by the resignation of two important Cabinet ministers in scandal-related circumstances. More ominous has been the collapse of two Canadian banks--the first such failures in 62 years. Ottawa has been forced to spend $730 million to shore up the banking system. 25X1

[redacted] The Canadian economy is growing this year at a 4-percent rate, down from near 5-percent in 1984. Although the 1985 budget only managed to slow the growth of Canada's fiscal deficit--currently projected to be $27 billion, or about 7.5 percent of GNP--it did stimulate higher employment by delaying tax hikes until 1986. Investment spending has been strong because of declining interest rates and a new federal energy policy which substantially reduces taxes in the energy sector. The employment rate has fallen to about 10 percent and should drop into single figures in 1986. Inflation will average near 4 percent in 1985 and is expected to increase slightly to 5 percent next year. 25X1

[redacted] The relatively weak Canadian dollar--the only major currency to have depreciated against the US dollar since the beginning of 1985--should enable Canada to post an estimated $15 billion trade surplus this year. This is only about $1 billion short of last year's record of $16.4 billion, despite the high level of imports due to the strong growth of the Canadian economy. Most of the trade surplus is offset by large services payments, however, particularly for interest and dividends. The current account surplus will decline about one-third this year, to approximately $1.2 billion. Ottawa's effort to procure guaranteed access to the US market through a freer-trade accord will dominate the economic agenda in 1986. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	82.4	87.7	101.3	104.1
Imports of Goods and Services	81.4	87.0	100.1	103.5
Balance of Goods and Services	1.0	0.7	1.2	.6
Current Account Balance	2.1	1.3	1.8	1.2
Long-Term Capital	4.7	-0.1	1.3	3.0
Total Reserves Minus Gold (yearend)	3.0	3.5	2.5	2.5**

*Projected
**September

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DENMARK: GENERAL ECONOMIC DATA

Population (1984): 5.1 Million — GDP (Purchaser's Value)/Capita: $10,700

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	45.1	49.7	54.6	58.7
GDP (Constant Prices - % Change by Year)	-2.9	2.1	3.9	2.3
Cost-of-Living Index (1980 = 100)	123	132	140	147

Denmark's economic growth rate will drop from 3.9 percent last year to about 2.3 percent in 1985 and should remain at that level in 1986. Investment spending probably will continue to be the strongest component of domestic demand, while private consumption should stagnate because of an incomes policy agreement reached in the spring limiting wage increases to 2 percent in both 1985 and 1986. We expect prices to rise only about 3 percent next year, down from an estimated 4.7 percent in 1985. 25X1

The growing current account deficit--expected to reach $2.0 billion this year--is Denmark's most pressing economic problem. The deficit is primarily attributable to interest payments on foreign debt which are expected to total $2.5 billion this year. In an effort to slow the growth of the current account deficit and reduce foreign borrowing by the public sector, the government has been reducing its budget deficit, from over 10 percent of GDP in 1982 to a projected 4 percent next year. 25X1

Denmark's unemployment rate--nearly 10 percent--remains troublesome, but continued job creation as a result of investment growth could push the rate below 9 percent next year. The key uncertainty is the course of fiscal policy. If the current account fails to improve, Copenhagen may feel compelled to raise taxes in an effort to restrain import demand. This in turn would jeopardize further improvements in unemployment. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	22.2	22.5	22.4	24.0
Imports of Goods and Services	24.3	23.5	24.1	26.6
Balance of Goods and Services	-2.1	-1.0	-1.7	-2.6
Current Account Balance	-2.3	-1.2	-1.6	-2.0
Long-Term Capital	2.4	2.5	1.9	4.5
Total Reserves Minus Gold (yearend)	2.3	3.6	3.0	5.0**

*Projected
**September

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FRANCE: GENERAL ECONOMIC DATA

Population (1984): 54.8 Million GDP (Purchaser's Value)/Capita: $8,940

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	408.2	450.3	490.0	504.0
GDP (Constant Prices - % Change by Year)	1.8	0.7	1.6	1.2
Cost-of-Living Index (1980 = 100)	127	139	149	158

The austerity program adopted by the Socialist government in 1983 continues to pay off in reducing inflation and improving the balance of payments. Recovering from a $12 billion deficit in 1982, the current account probably will register a small surplus this year, and is likely to improve further in 1986. On a December-to-December basis, inflation fell below 7 percent last year and may fall to 5 percent this year. More important, the inflation differential vis-a-vis France's major trading partners has been reduced to about 2 percentage points--although further progress will be slow. Real GDP will be up about 1.2 percent this year, slightly less than the increase recorded in 1984, while unemployment continues to hover near 10.5 percent. Economic growth should pick up next year, reaching 2 percent for the first time since 1979. 25X1

During the past year the Socialists have continued their bold effort to restructure and modernize the economy by encouraging more flexibility in the labor market and by diverting resources from consumption to investment. Disappointing its labor union supporters, the government has authorized significant layoffs in mining, steel, shipbuilding, and automobiles. It is also pressing nationalized firms to become more efficient and profitable. 25X1

While Paris clearly is moving in the right direction, the problems it is addressing are deep-seated, and positive results will continue to be slow to materialize under the best of circumstances. Growing political activity centered on the March 1986 Assembly election will focus attention on economic policy and spark vigorous debates. If the right wins, as now seems likely, it probably will continue the austerity program and launch new initiatives to liberalize the domestic economy. Policy formulation could be complicated, however, by the fact that -- for the first time under the Fifth Republic -- parliament and the presidency will be in the hands of different political groups. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	153.8	145.4	148.1	151.6
Imports of Goods and Services	161.2	146.5	145.2	148.4
Balance of Goods and Services	-7.4	-1.1	-2.9	3.2
Current Account Balance	-12.1	-4.9	-0.0	0.2
Long-Term Capital	-1.2	9.4	5.2	1.5
Total Reserves Minus Gold (yearend)	16.5	19.9	20.9	23.0**

*Estimated
**September

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GREECE: GENERAL ECONOMIC DATA

Population (1984): 9.9 Million GDP (Purchaser's Value)/Capita: $3,320

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	22.6	27.2	33.5	40.5
GDP (Constant Prices - % Change by Year)	-0.1	-0.0	2.6	2.0
Cost-of-Living Index (1980 = 100)	151	181	215	256

Following his reelection in June, Prime Minister Papandreou recently adopted austerity measures aimed at curbing a soaring current account deficit, and reducing inflation and the large public sector deficit. The new measures include a 15-percent devaluation of the drachma, import restrictions, and changes in the wage indexation formula that will reduce the real incomes of workers. In addition, Papandreou imposed a one-year tax surcharge on the self-employed and promised spending cuts and a crackdown on tax evasion. The new policies have sparked widespread labor protests, but Papandreou appears to be hanging tough. With the austerity program in place, Greece will have difficulty matching this year's 2.0-percent economic growth rate in 1986. As a result, unemployment probably will creep higher to near 9 percent while inflation is likely to remain around 20 percent. 25X1

Greece's already large current account deficit soared nearly 54 percent in the first seven months of this year as exports fell 8 percent while imports rose 6 percent. The deficit is likely to reach at least $2.8 billion for all of 1985--about 8 percent of GDP--up from $2.2 billion in 1984. On the domestic side, inflation is running in the 18 to 20 percent range, unemployment is around 8 percent and rising, and private investment continues its six-year-long slide. The public sector borrowing requirement is expected to reach almost 20 percent of GDP--up from 15.5 percent in 1984--due to a pre-election spending spree. 25X1

In the short term, the new measures are likely to help reduce the trade and current account deficits. They will also strengthen Athen's case if it turns to the EC for a balance-of-payments loan to meet its large borrowing needs. Over the longer run, however, the measures are insufficient to correct the structural problems of the economy. To revive private investment and improve Greece's competitiveness, Papandreou will need to liberalize the heavily state-dominated economy. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	4.2	4.1	4.4	4.3
Imports of Goods and Services	10.1	9.5	9.8	10.5
Balance of Goods and Services	-5.9	-5.4	-5.4	-6.2
Current Account Balance	-1.9	-1.9	-2.2	-2.8
Long-Term Capital	1.2	2.1	1.8	NA
Total Reserves Minus Gold (yearend)	0.9	0.9	1.0	1.2**

*Projected
**August

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ICELAND: GENERAL ECONOMIC DATA

Population (1984): 0.24 million GDP (Purchaser's Value)/Capita: $9,170

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	1.0	1.8	2.2	2.1
GDP (Constant Prices - % Change by Year)	-0.1	-5.5	2.7	1.5
Cost-of-Living Index (1980 = 100)	225	418	547	717

Iceland's economic growth rate will decline from 2.7 percent in 1984 to 1.5 percent this year because of weak domestic demand, while inflation will continue to hover at just over 30 percent--about the same as last year but down from over 80 percent in 1983. Unemployment should fall to about 0.8 percent after reaching the relatively high rate--by Icelandic standards--of over 1 percent last year. 25X1

The principal short-term economic problem continues to be the high inflation rate. Despite government efforts to lower the rate, inflationary expectations remain strong, making speculation against the krone a recurring possibility. Meanwhile, net external debt, now over 60 percent of GDP, has become an increasing burden on the balance of payments. 25X1

Over the longer term , Iceland will continue to be plagued by the small size of the economy and its over-dependence on the fishing industry--which accounts for about 75 percent of export earnings and 20 percent of GDP. Domestic output and export earnings both remain extremely vulnerable to variations in the fish catch and world fish prices. Iceland will have to expand its efforts to diversify its economy but it will need foreign capital to make the necessary investments. Without these structural adjustments, the economy is likely to remain fragile for the foreseeable future. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	1.05	1.10	1.11	1.16
Imports of Goods and Services	1.31	1.15	1.24	1.29
Balance of Goods and Services	-0.26	-0.05	-0.13	-0.13
Current Account Balance	-0.26	-0.06	-0.13	-0.13
Long-Term Capital	0.21	0.09	0.11	NA
Total Reserves Minus Gold (yearend)	0.15	0.13	0.15	0.19**

*Projected
**September

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ITALY: GENERAL ECONOMIC DATA

Population (1984): 57.0 Million   GDP (Purchaser's Value)/Capita: $6,110

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	267.8	306.8	348.4	387.1
GDP (Constant Prices - % Change by Year)	-0.5	-0.4	2.6	2.2
Cost-of-Living Index (1980 = 100)	137	157	174	189

Rome will continue to face several pressing economic problems in 1986 including large budget and trade deficits, high inflation, and slow growth. Real GDP is likely to increase slightly less than 2.0 percent next year as the investment boom--caused by rising profits and increasing exports--tapers off. Sluggish growth will add about 0.2 percentage point to this year's 10.6 percent unemployment rate because increased jobs in the services sector probably will not offset the declines in industry and agriculture. 25X1

Political maneuvering to re-instate Italy's five party coalition government after its collapse over the handling of the Achille Lauro hijacking has eclipsed economic matters--particularly passage of the 1986 budget--at a time when strong fiscal measures are needed. Italy's massive public sector deficit threatens to undermine confidence in the economy and prevent further progress against inflation. The new government is likely to be less stable than its predecessor, virtually ensuring that any expenditure-cutting measures in the 1986 budget will fall far short of those necessary to keep the public sector deficit from rising above 16 percent of GDP next year. After averaging 8.6 percent for the first nine months of 1985, consumer price inflation probably will reach 9.0 percent next year. 25X1

Italy's trade deficit nearly doubled in the first half of 1985; imports rose sharply as domestic demand outpaced production and export growth slowed due to an erosion of Italy's international competitiveness. The deficit should improve next year as sluggish economic growth restrains imports while the 8-percent devaluation of the lira in July makes Italian exports more attractive. The devaluation should also boost services exports--especially tourism earnings--cutting the current account deficit to $5.0 billion in 1986. 25X1

Trade and Payments (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	98.9	97.4	99.2	101.4
Imports of Goods and Services	105.4	98.1	103.2	109.0
Balance of Goods and Services	-6.5	-0.7	-4.0	-7.6
Current Account Balance	-5.7	0.6	-3.0	-6.6
Long-Term Capital	5.1	0.5	0.6	2.8
Total Reserves Minus Gold (yearend)	14.1	19.8	20.8	20.4**

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**September

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NETHERLANDS: GENERAL ECONOMIC DATA

Population (1984): 14.4 Million GDP (Purchaser's Value)/Capita: $8,510

Total Output (Billion $US-1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	114.6	117.4	122.5	128.2
GDP (Constant Prices - % Change by Year)	-2.0	0.8	1.7	2.2
Cost-of-Living Index (1980 = 100)	113	116	120	123

The Dutch economy is growing at an estimated 2-percent pace in 1985, and probably will expand at about the same rate next year. Stockbuilding and exports continue to be strong, while business investment has recovered and now is rising by about 7 percent annually; private consumption is also beginning to expand. Job creation, however, has not been sufficient to offset increases in the labor force, hence the unemployment rate continues to hover around 14 percent. Part of the problem is the generous welfare system that reduces the incentive to find work. Modest pay raises and small rises in import prices will keep inflation at about 2.5 percent in 1985, and 1.0 to 1.5 percent next year. 25X1

The 1986 budget recently announced by the Dutch government relaxes--but does not abandon--the austerity program in place since 1982. Expenditures are being reduced by $2.5 billion by trimming welfare spending, public-sector wages, and allocations to various ministries. These cuts should lower the deficit slightly, to 7.0 percent of GDP. Additional spending reductions are unlikely because the ruling coalition faces elections by next spring. 25X1

Although imports are growing at a healthy clip because of a surge in investment in plant and equipment, the current account surplus is continuing to rise this year due to even stronger export growth. The trade and current account surpluses are expected to narrow in 1986 as export growth slows. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	88.4	83.3	83.9	86.1
Imports of Goods and Services	82.9	78.6	77.9	79.8
Balance of Goods and Services	5.1	4.8	6.0	6.3
Current Account Balance	3.7	3.9	5.0	5.3
Long-Term Capital	-3.3	-2.1	-3.0	-2.7
Total Reserves Minus Gold (yearend)	0.1	10.2	9.2	10.5**

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**September

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NORWAY: GENERAL ECONOMIC DATA

Population (1984): 4.1 Million GDP (Purchaser's Value)/Capita: $13,350

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	44.4	49.2	54.7	59.2
GDP (Constant Prices - % Change by Year)	0.3	3.8	3.8	2.2
Cost-of-Living Index (1980 = 100)	127	137	146	155

The economy probably will grow at about a 2-percent rate in both 1985 and 1986, although the 1986 government budget--which is likely to feature a 12-percent spending increase and only a 2-percent revenue increase--could push the rate somewhat higher next year. In addition, investment spending, which is expected to decline this year due to a drop in offshore energy investment, could rebound in 1986, adding to the economy's strength. The 1985 unemployment rate will be about 2.5 percent, high by Norwegian standards, and the Conservative-led coalition probably will give in to opposition pressure to spend more money on employment programs. 25X1

Inflation this year should equal the 6-percent rate recorded in 1984. The government projects a slight decline in inflation next year, but this forecast is over optimistic given the expected expansion of fiscal policy. Higher spending probably will result in the first budget deficit in seven years, and the central bank will likely follow an accommodating monetary policy. Given the likelihood of stimulative monetary and fiscal policies, wage demands in next year's wage negotiations will be high, pushing price increases up even higher next year. 25X1

With export volume increases offsetting the decline in oil prices, Norway's 1985 current accunt surplus will almost match last year's $3.2 billion. Next year's surplus could be lower if the dollar continues to weaken and world oil prices decline further. The current account probably will rebound later this decade because the government recently announced plans for a 50-percent increase in oil production by 1990 to generate more tax revenues. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	27.3	26.6	28.0	29.4
Imports of Goods and Services	26.0	24.0	24.2	25.2
Balance of Goods and Services	1.3	2.8	3.8	4.2
Current Account Balance	0.7	2.0	3.2	3.0
Long-Term Capital	1.2	-1.0	-0.1	1.0
Total Reserves Minus Gold (yearend)	6.9	6.6	9.4	13.4**

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PORTUGAL: GENERAL ECONOMIC DATA

Population (1984): 10.0 Million GDP (Purchaser's Value)/Capita: $1,950

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	12.7	15.6	19.5	24.1
GDP (Constant Prices - % Change by Year)	3.8	-0.4	-1.4	1.3
Cost-of-Living Index (1980 = 100)	147	184	238	290

The Portuguese economy began to recover slowly in 1985, with GDP growth likely to reach 1.3 percent. Exports are leading the way and should rise about 9 percent in real terms, while private consumption will be flat due to an expected 2-percent fall in real wages. The deterioration in the financial condition of Portuguese firms and the competition from the government for available credit will lead to another decline in private investment. Total domestic demand is likely to edge up slightly, contributing to a 5 percent increase in real imports. Exports should do somewhat better, helping to reduce the current account deficit to $250 million. Inflation will continue to decline--to 22 percent in 1985. 25X1

The principal impediment to economic recovery is Portugal's soaring government deficit--almost 20 percent of GDP in 1985. Private savings are increasingly financing the deficit, leaving fewer resources for private sector development. Lisbon is being pressured by the World Bank to restructure public sector firms, but probably will hold off on any major reforms until after the presidential elections early next year because of the political uncertainties resulting from the October legislative elections. 25X1

The balance of payments situation will likely deteriorate next year because Portugal enters the EC on 1 January. Shifting to imports of higher priced EC cereals, phasing out nontariff barriers, and lowering high tariffs on competitive Spanish goods will increase imports, while a backward agricultural sector and uncompetitive industries will slow export growth. Lisbon will probably have to arrange another IMF program in 1986 --this time with more emphasis on public sector structural reform. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	5.9	6.9	7.1	7.7
Imports of Goods and Services	11.8	10.1	9.8	10.0
Balance of Goods and Services	-5.9	-3.2	-2.7	-2.3
Current Account Balance	-3.3	-1.6	-0.5	-0.3
Long-Term Capital	2.2	1.2	1.2	1.0
Total Reserves Minus Gold (yearend)	0.5	0.4	0.5	1.2**

*Projected
**August

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SPAIN: GENERAL ECONOMIC DATA

Population (1984): 38.6 Million   GDP (Purchaser's Value)/Capita: $4,180

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	123.6	141.7	161.3	178.6
GDP (Constant Prices - % Change by Year)	1.0	2.4	2.3	1.8
Cost-of-Living Index (1980 = 100)	131	147	164	177

Real GDP will grow about 1.8 percent in 1985, half a percentage point below the 1984 rate. The decline mainly reflects slower growth in real exports -- the driving force of the economy last year. Private consumption is likely to increase only marginally due to the sluggish rise in real disposable income. Although profits are improving, high real labor costs and uncertainties regarding EC accession continue to hold back private investment. Weak domestic demand will help to reduce inflation below 8 percent, but at the cost of pushing unemployment still higher--to about 21.5 percent. 25X1

Real exports are likely to expand about 4 percent in 1985 as slower growth in Spain's markets abroad and an erosion in international competitiveness cut into export demand. Real imports will grow about 3 percent, reflecting the slower rise in domestic demand. The current account surplus will decline slightly to about $1.8 billion, but will remain much improved over the large deficits recorded in the early 1980s. 25X1

Declining inflation and a solid current account surpulus will cushion Spain's entry into the EC on 1 January 1986. The required dismantling of tariff barriers, however, will stimulate imports, and the inflation rate--4 percentage points above the EC average--could hurt Spanish competitiveness and partially offset the advantage of easier access to European markets. Because the external sector probably will not contribute greatly to GDP growth next year, Madrid is emphasizing a recovery based on the expansion of domestic demand. Officials expect an easier monetary policy and tax cuts to stimulate private consumption and investment. This should boost real GDP growth to about 2.3 percent in 1986--but probably will have little impact on Spain's high unemployment rate. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	34.8	33.6	37.0	38.1
Imports of Goods and Services	40.6	37.3	35.9	37.2
Balance of Goods and Services	-5.8	-3.7	1.1	0.9
Current Account Balance	-4.3	-2.5	2.1	1.8
Long-Term Capital	1.8	3.1	3.2	1.0
Total Reserves Minus Gold (yearend)	7.7	7.4	12.0	11.5**

* Projected
**August

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TURKEY: GENERAL ECONOMIC DATA

Population (1984): 50.2 Million GDP (Purchaser's Value)/Capita: $990

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	23.4	31.3	49.7	73.9
GDP (Constant Prices - % Change by Year)	4.3	3.8	5.8	3.9
Cost-of-Living Index (1980 = 100)	179	235	348	500

With some exceptions Turkey is making progress in dealing with its multiple economic problems. Inflation has slowed to 36 percent for the latest 12-month period, down from 56 percent a year earlier, and real GDP growth is expected to be a respectable 3.9 percent in 1985. Economic growth may actually be even higher because the imposition of the value-added tax early this year has led to underreporting of business activity. The current account deficit also has improved significantly and for 1985 is likely to be around $1.0 billion, down from $1.4 billion in 1984. Although the trade deficit will deteriorate in 1985, a surge in tourism revenue and a substantial rise in worker remittances will more than offset it. 25X1

Prime Minister Ozal is continuing with his free-market approach, although some policy errors could create difficulties next year. The budget deficit reached about 5 percent of GDP in 1984 and Ankara has not had much success in reducing it this year--the deficit is likely to be double the original target. Moreover, the money supply appears out of control, soaring 58 percent for the latest 12-month period. 25X1

Rapid growth in the money supply is sure to cause Ankara to miss its inflation target of 25 percent for 1986; prices probably will rise closer to 40 percent. GDP growth likely will be in the 4 to 5 percent range with unemployment remaining around 20 percent. Ankara will continue to need aid from its Western allies, as well as borrowing in the private financial markets. The grace period on previously rescheduled debt essentially ended last year, substantially boosting Turkey's debt service burden--it will reach about $3.5 billion this year and remain near that level through the remainder of the decade. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	5.7	5.9	7.4	8.0
Imports of Goods and Services	8.4	8.9	10.3	10.8
Balance of Goods and Services	-2.7	-3.0	-2.9	-2.8
Current Account Balance**	-0.9	-1.8	-1.4	-1.0
Long-Term Capital	0.2	0.3	0.2	NA
Total Reserves Minus Gold (yearend)	0.9	1.3	1.3	1.2***

*Projected
**Before debt relief
***September

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UNITED KINGDOM: GENERAL ECONOMIC DATA

Population (1984): 56.4 Million   GDP (Purchaser's Value)/Capita: $7,540

Total Output (Billion $US-1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices	370.1	401.8	425.4	464.5
GDP (Constant Prices - % Change by Year)	1.8	3.2	1.6	3.5
Cost-of-Living Index (1980 = 100)	122	127	133	141

The United Kingdom is now in its fifth year of economic expansion with GDP expected to grow by about 3.5 percent in 1985. Growth has been led by exports and private investment, and the economy received an additional boost from the conclusion of the coal miners' strike last spring. Despite improving growth, unemployment continues to be Thatcher's chief economic problem, with the jobless rate standing at 13.1 percent in October and showing no sign of coming down in the foreseeable future. After a surge in inflation during the summer, retail prices are now growing at a rate of less than 6 percent and will remain in that range through next year. 25X1

London has found it difficult to meet targets set in the March budget. The government set its 1985/86 deficit target at $9.9 billion but after only six months the deficit has already reached $7.9 billion. The Treasury is making a renewed attempt to control spending, but is unlikely to meet the deficit target without a tax increase--highly unlikely for political reasons--or more sales of nationalized industries to the private sector. The Treasury is also having difficulty meeting monetary targets. In March, the Treasury trimmed the target range for annual money supply growth to 5-9 percent, but Sterling M3 has grown by an annual rate of 18.5 percent in the last six months. As a result, London has recently changed its monetary policy, deemphasizing control of the money supply. Instead, the Treasury will set interest rates at whatever level is necessary to control inflation despite the risk that high interest rates could cause an economic slowdown. 25X1

Britain's trade and current accounts are near balance, and may generate small surpluses this year and next. The non-oil trade deficit is being offset by a surplus in oil trade. Slower economic growth--probably around 2.7 percent-- and the expected strengthening of the pound should slow import demand in 1986, while exports will continue to recover. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	146.3	140.4	142.0	149.5
Imports of Goods and Services	134.3	132.2	138.0	144.6
Balance of Goods and Services	12.0	8.2	4.0	4.9
Current Account Balance	8.4	4.9	0.7	1.2
Long-Term Capital	-15.6	-13.8	-14.8	-13.6
Total Reserves Minus Gold (yearend)	12.4	11.3	9.4	10.9**

*Projected
**September

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[redacted]
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WEST GERMANY: GENERAL ECONOMIC DATA

Population (1984): 61.2 Million   GDP (Purchaser's Value)/Capita: $10,030

Total Output (Billion $US - 1984 Exch Rate)	1982	1983	1984	1985*
GDP (Purchaser's Value - Current Prices)	561.4	585.8	612.3	640.0
GDP (Constant Prices - % Change by Year)	-1.1	1.3	2.6	2.5
Cost-of-Living Index (1980 = 100)	112	116	118	121

[redacted] West German economic growth is continuing this year at about 1984's moderate 2.6-percent pace. Exports are the driving force, as demand for West German goods remains high. The traditional export sectors--steel, chemicals, autos, machinery, and engineering--are all benefiting. West Germany is recording gains in its global market share, and record trade and current account surpluses are almost certain this year; these surpluses probably will be higher still in 1986. 25X1

[redacted] Domestic demand is only now beginning to play a supporting role in the economic expansion. Private consumption has been weak due to slack labor market conditions but is starting to strengthen. It should firm next year with the first installment of a modest tax cut. Equipment investment is robust, but the flagging construction industry--hit by a saturated housing market and a slowdown in public construction--is sapping overall private-sector investment growth. Meanwhile, Bonn's devotion to budget-balancing has imposed austerity on public consumption and investment. 25X1

[redacted] The rise in consumer prices this year should remain close to 1984's 2.4 percent--continuing evidence of Bonn's success in taming inflation. Unemployment remains the most intractable problem; the current 9.4-percent unemployment rate is exceptionally high by historical standards, and only marginal improvement is in sight. The continued moderate rate of economic growth expected for 1986--Bonn projects 3 percent--will generate new jobs, but these will be offset by rapid growth of the labor force. The Kohl government has no comprehensive plan to deal with unemployment, but the opposition -- preoccupied with security and foreign policy matters -- has not effectively exploited this issue. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1982	1983	1984	1985*
Exports of Goods and Services	219.5	209.8	210.9	238.0
Imports of Goods and Services	204.4	195.3	192.4	214.0
Balance of Goods and Services	15.1	14.5	18.5	24.0
Current Account Balance	3.4	4.0	6.6	13.0
Long-Term Capital	-6.7	-3.3	-4.7	-2.0
Total Reserves Minus Gold (yearend)	44.8	42.7	40.1	42.8**

*Projected
**September

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